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**South Carolina**  
**Division of General Services**

# PROCUREMENT AUDIT AND CERTIFICATION

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UNIVERSITY OF SOUTH CAROLINA

AGENCY

MARCH 8, 1983

DATE



STATE OF SOUTH CAROLINA  
**BUDGET AND CONTROL BOARD**  
DIVISION OF GENERAL SERVICES

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COLUMBIA, SOUTH CAROLINA 29201  
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TONY ELLIS

March 8, 1983

Mr. T. Michael Copeland  
Acting Deputy Executive Director  
Budget and Control Board  
Ninth Floor, Columbia Building  
Columbia, South Carolina 29201

Dear Mike:

Attached is the final University of South Carolina audit report and recommendations made by the Materials Management Office. I recommend the Budget and Control Board grant the University two years certification as outlined in the audit report.

Sincerely,



Tony R. Ellis  
Acting Deputy Director

TRE:rms

Attachment

UNIVERSITY OF SOUTH CAROLINA

AUDIT REPORT

March 8, 1983

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## INTRODUCTION

The Audit and Certification Section conducted an examination of the internal procurement operating procedures and policies and related manual of the University of South Carolina.

Our on-site review was conducted January 21, 1982 through March 19, 1982.

Our examination was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the Regulations.

## PURPOSE

Our examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the institution in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State;
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State;
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process.

## BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The Budget and Control Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The materials management office shall review the respective governmental body's internal procurement operation, shall certify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the board those dollar limits for the respective governmental body's procurement not under term contract.

On January 19, 1982, the University of South Carolina submitted to the Materials Management Office a general request for the maximum certification allowable to make direct procurements in the areas of goods and services, consultant services, information technology, except as noted below, and construction and related professional services. The only exception to this request was the procurement of main frame computer equipment which they did not wish to handle themselves. As a result of this request, we began an audit of the procurement system January 21, 1982.



## SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the University of South Carolina and the related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions up to the requested certification limits.

The Audit and Certification team of the Materials Management Office statistically selected random samples for the period July 1, 1981 - November 30, 1981, of procurement transactions for compliance testing and performed other auditing procedures through February 28, 1982, that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

- (1) adherence to provisions of the South Carolina Consolidated Procurement Code and Regulations;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order registers;
- (4) evidences of competition;
- (5) small purchase provisions and purchase order confirmations;
- (6) emergency and sole source procurements;
- (7) source selections;
- (8) file documentation of procurements;

- (9) reporting of Fiscal Accountability Act;
- (10) warehousing, inventory and disposition of surplus property; and
- (11) economy and efficiency of the procurement process.

We are unable to recommend certification in the areas of Information Technology and Construction. The state plan for the management and use of information technology has not been completed. Additionally, procedures for monitoring construction and related services procurements have not been finalized. Because of this, we feel it would be inappropriate to recommend certification in these areas at this time.

Our examination included a review of these areas so that once the aforementioned plans and procedures are completed we will be able to make recommendations for certification, when requested, with only a limited follow-up review.

## SUMMARY RESULTS OF EXAMINATION

Our examination of the procurement system of the University of South Carolina produced findings and recommendations for improvement in the following areas:

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## RESULTS OF EXAMINATION

### I. GENERAL COMPLIANCE WITH THE CONSOLIDATED PROCUREMENT CODE

#### A. Internal Procurement Procedures Manual

Subsequent to the completion of our on-site review of the purchasing function at the University of South Carolina, a copy of their Internal Procurement Procedures Manual was submitted to the Materials Management Office, as required by Section 19-445.2005 of the regulations, for review to determine that written internal operating procedures as submitted are consistent with the Consolidated Procurement Code and regulations.

Our review of this manual indicated that the following areas needed to be added to and/or expanded:

1. A procedures flow chart showing the document processing flow for consulting services and construction and related professional services.
2. The specific procedures to be followed by the governmental body when procurements are made in the area of professional and consultant services. This should include a statement that these services must be obtained through the use of requests for proposals.
3. Procurement procedures to be followed with respect to maintenance stores.



4. Determination reports as listed in Sections 11-35-2410, 11-35-2420, 11-35-2440, 11-35-3820, 11-35-3830 and 11-35-5260 of the Consolidated Procurement Code should be addressed outlining the approvals required.
5. Procedures to be followed with respect to Quality Assurance.
6. Reference the Information Technology Master Plan.
7. The section entitled "Exemption to Code" should be expanded to include the items exempted by the Budget and Control Board.
8. All forms should be included in the manual and referenced in the appropriate sections. This is incomplete at this time.
9. The section of "State Term Contracts" should indicate that the use of these is mandatory. Currently it states, "they may be used to our advantage."
10. The flow chart for procurements of Information Technology should be expanded to show that they will be reviewed by Purchasing or Computer Services for compliance with the Information Technology Master Plan.

#### USC RESPONSE

Areas of the Internal Procurement Procedures Manual have been expanded or added as noted.

B. Notation That Price is Fair and Reasonable on Less Than \$500.00  
Procurements

The Purchasing Department is not indicating on purchase requisitions for less than \$500.00 that the price is fair and reasonable.

Section 19-445.2100, Subsection B of the Consolidated Procurement Code Regulations states in part:

Small purchases not exceeding \$500.00 may be accomplished without securing competitive quotations if the prices are considered to be reasonable. The purchasing officer shall annotate the purchase requisition: 'Price is fair and reasonable' and sign.

The Purchasing Department considers it self-evident that when the purchasing officer signs a requisition for a procurement of less than \$500.00 he considers the price fair and reasonable.

This results in the institution being out of compliance with the Procurement Code.

We recommend one of the following options:

OPTION I

The Purchasing Department institute a procedure whereby the purchasing officers note that the price is fair and reasonable and sign the requisition for procurements costing less than \$500.00.

or

OPTION II

It is specifically stated in the internal procurement procedures manual that when a procurement officer signs a

requisition that it be understood that they consider the price to be fair and reasonable.

#### USC RESPONSE

Procedures have been developed whereby buyers will document specifically that prices are fair and reasonable on requisitions.

## II. COMPLIANCE - GOODS AND SERVICES

### A. Goods and Services Procurements Not Meeting All Requirements

Our examination of transactions in the area of Goods and Services has determined that some procurements were not made in compliance with the Consolidated Procurement Code Regulations. Examples of these are as follows:

<u>ITEM</u>	<u>AMOUNT</u>
(1) Theater Lamps	\$1,277.74
(2) Printing	1,929.20
(3) Paper	1,293.50
(4) Coolers	989.04

Items 1 and 4 were procured without evidence of competition and no documentation was made that the procurement was to the advantage of the State, price and other factors considered, including the administrative cost of the purchase. Additionally, item 3 did not have the proper purchase authority as the requisition was not approved by the buyer. Item 2 for printing services was solicited competitively, however, the

requirements of the Code to document competition with written quotations from vendors were not followed.

Section 19-445.2100, Subsection B, Items 2 and 3 of the Regulations state in part:

Purchases from \$500.01 to \$1499.99. Solicitations of verbal or written quotes from two qualified sources of supply shall be made and documented that the procurement is to the advantage of the State, price and other factors considered, including the administrative cost of the purchase. Such documentation shall be attached to the requisition.

Additionally,

Purchases from \$1500.00 to \$2499.99. Solicitation of written quotations from three qualified sources of supply shall be made and documented that the procurement is to the advantage of the State, price and other factors considered, including the administrative cost of the purchase. Such documentation shall be attached to the purchase requisition. When prices are solicited by telephone, the vendors shall be requested to furnish written evidence of their quotation.

The Purchasing Department has not adequately applied the Small Purchasing Procedures in processing requisitions for Goods and Services.

We recommend that the Goods and Services area be brought into compliance by the implementation of the following procedures:

1. Implementation of a training program in conjunction with the Research and Training staff of the Materials Management Office to educate all personnel in the code requirements, specifically Section 19-445.2100 regarding competition.

2. The implementation of recommended changes to the internal procedures manual as outlined in our first comment (I, A).
3. Strengthening of the procedures for monitoring the code compliance of University procurements.

It is our opinion that the above steps, when properly completed, should safeguard the procurement function adequately and effectively in the future.

#### USC RESPONSE

It should be noted that at the inception of the Procurement Code there was confusion in interpreting some sections of the Code. Training sessions since the inception have proved very beneficial in strengthening Code compliance.

#### B. Documentation of Quotations on Procurements of Printing Services

The Printing Services Department obtains quotes on printing jobs which are not handled in house. The quotations furnished to the Purchasing Department are inadequately documented, however.

Section 19-445.2100, Subsection B states in part:

Purchases from \$1500.00 to \$2499.99. Solicitation of written quotations from three qualified sources of supply shall be made and documented that the procurement is to the advantage of the State, price and other factors considered, including the administrative cost of the purchase. Such documentation shall be attached to the purchase requisition. (Emphasis Added)



Printing Services has a policy of not obtaining written quotations on purchases from \$1,500.00 to \$2,499.99. This is due to their lack of familiarity with the Consolidated Procurement Code regulations regarding small purchasing procedures.

We recommend that any internal policy regarding solicitation of bids without written quotations be changed to comply with the Procurement Code.

Additionally, for a more efficient overall procurement effort, the University should study the feasibility of putting a purchasing agent, responsible to the Director of Purchasing, in the Printing Services Department.

#### USC RESPONSE

Printing Services has been informed and trained of Procurement Code regulations. In order to insure compliance with the Code, all requisitions of Printing Services will be reviewed by the Director of Purchasing for adequate documentation before the purchase order is issued.

### III. COMPLIANCE - CONSULTING SERVICES

The University of South Carolina pays most consulting services on a direct expenditure voucher. Although this allows them to avoid preparing a purchase order, it does not exempt them from complying with the competitive source selection process required in the Procurement Code.

We discovered in our testing the following contractual services that were improperly procured subsequent to the passage of the Code:

<u>ITEM</u>	<u>AMOUNT</u>
(1) Security Guard	\$ 780.00
(2) Design of a sample plan for a hypertension survey	1,500.00

Item 1 was procured without any documented attempt for competition. Payment was made on the basis of an invoice attached to a direct expenditure voucher. On item 2 it was noted that no one on campus had experience in planning for a statewide hypertension survey but neither the competitive process nor a sole source determination and finding were documented.

Section 19-445.2025, Subsection A, of the regulations states that services which fall within the definition of consultants shall be procured in accordance with the Procurement Code.

We recommend that the University include in their internal procurement procedures manual the policies and procedures that would place them in compliance with the Code in regard to consulting services. This should require that University departments justify the need for a consultant indicating why the service cannot be provided by in-house personnel. Additionally, if the request specifies a particular individual or firm, the department should be required to supply information to the Purchasing Department showing why they feel that only the specified individual or firm can provide the service. If other sources are available, departments should make Purchasing aware of them.

### USC RESPONSE

The manual has been amended to reflect policies and procedures in regard to consulting service procurements.

#### IV. COMPLIANCE - CONSTRUCTION

##### A. Lack of Written Authority for the Project Director's Function

Our examination revealed that the Project Director of the Physical Plant internally administers all contracts for permanent improvement projects. This function entails approval of direct expenditure vouchers, requests for payments in progress reports from contractors and related construction professionals, E-3 - Quarterly Report of Expenditures for Permanent Improvements and E-11 - Revision of Project Cost Estimate reports to the State Engineer and other documents involved in the construction projects. These contracts are executed by the University of South Carolina under the signature of the Vice President of Business and Finance.

Our review of the University of South Carolina's policy and procedures manual determined that there is no written authority designating the Physical Plant Project Director as the internal administrator of permanent improvement contracts.

While we recognize that the Project Director functions in a generally effective and efficient manner, we did notice some confusion internally as to where his authority begins and ends.

We, therefore, recommend that the University of South Carolina's policy and procedures manual include a description of the Project Director's function, and if deemed appropriate, establish the necessary designations to enable this position to administer permanent improvement contracts under the valid authority of the University of South Carolina and the State.

#### USC RESPONSE

We have evaluated the Project Development Director's function in regard to administration and purchasing for construction projects. The planning and administration of construction projects will be the responsibility of the Project Development Section and the policy and procedures manual will be expanded defining this section's area of responsibility. The responsibility for procurement procedures of these projects will be the responsibility of the Director of Purchasing.

#### B. Construction Purchasing Orders

Our examination revealed that the Director of the Purchasing Department is signing purchase orders for construction projects while the Physical Plant handles the details of the acquisition and the Vice President of Business and Finance signs the contractual agreements between the University of South Carolina and the contractor or related professionals. An authorized purchase order must be entered into the accounting system to establish a payment document.



In one case bids were opened and the State Engineer's authority to execute a construction contract was obtained in October, 1981, but no requisition was sent to Purchasing until February 19, 1982.

Good internal control procedures dictate that control documents such as the purchase order should not be signed (approved) by an official without his knowledge or control of the procurement process or the validity of the transaction being consummated.

We recommend that the University of South Carolina establish one of the following procedures to correct this situation:

1. Assign the task of purchase order authorization to the same officer that sign the contracts for construction projects. (At this point the Vice President of Business and Finance).

or

2. After the Physical Plant Division prepares the specifications and mails the request for bids or proposals, they be opened, evaluated and awarded under the auspices of the Director of Purchasing.

Either of these recommendations will establish that informed and responsible parties are signing all documents related to construction projects.

#### USC RESPONSE

As previously noted, the Director of Purchasing will be responsible for the procurement functions of all construction projects.



### C. Classification of Permanent Improvement Expenditures

Our review of work orders in progress on February 21, 1982, determined that the University of South Carolina charges expenditures for both permanent improvements and routine repairs and maintenance to the budget class numbers 52042 - Repairs to Equipment - U.S.C. Work; 52043 - Repairs to Buildings - U.S.C. Work; and 53011 - Maintenance Supplies. Additionally, all related construction professional fees are charged to budget class number 52070 - Other Contractual Services.

The University's internal budgetary process evidently projects expenditures for permanent improvements not funded with bond funds into the same budget classes as routine repairs and maintenance and other contractual services.

This is apparent from the Legislative Budget Information Report for the period October 1, 1981 through December 31, 1981.

	BUDGETED FUNDS PER <u>APPROPRIATIONS ACT</u>	EXPENDED <u>THIS QUARTER</u>
Permanent Improvements	-0-	\$860,000

On the other hand, the Statement of Expenditures for Permanent Improvement Projects Report for the period October 1, 1981 to December 31, 1981, as reported to the State Engineer, indicates a total expenditure of \$1,711,482 for permanent improvements. Much of this was bond funds; however, a portion was funded from general and housing revenues.

The University of South Carolina is required by Section 1A of the 1981-82 Appropriations Act to account for expenditures to the South Carolina General Assembly by budget line item, as well as, for Fiscal

Accountability Act requirements. Additionally, generally accepted accounting principles require an accurate disclosure of (a) permanent improvements, and (b) routine repair and maintenance for both budgetary projection and actual expenditures.

Section 11-35-310(7) of the Consolidated Procurement Code defines construction as follows:

Construction means the process of building, altering, repairing, remodeling, improving or demolishing any public structure or building or other public improvements of any kind to any public real property. It does not include the routine operation, routine repair or routine maintenance of existing structures, buildings or real property.

The Statewide Accounting and Reporting Systems (STARS) Policies and Procedures Manual of the South Carolina Comptroller General establishes the following definitions in this area, providing more detailed descriptions of each type of expenditure.

Reference 2.1.6.20 - Contractual Services states:

Building Renovation:

Expenditures for renovations are defined as alterations made to the interior of a building for the purpose of improving the utility of space to an occupant. Renovations are distinguished from permanent improvements in that the alterations do not alter the basic structure or the original purpose of the building. This is to include repairs to a building of a major and permanent nature not connected with new construction or additions. Costs must not exceed \$10,000.

General Repair:

Expenditures for repair of buildings or equipment not otherwise classified in repair of office equipment, photocopying equipment repair, repair of motorized vehicles, and building renovations. When repairs are made, the cost of labor and materials will be charged to this code.

Additionally, reference 2.1.6.20 - Supplies and Materials - defines building repairs as:

Building, Construction and Renovation Supplies:

Expenditures for materials for the purpose of building, constructing, or renovating agency property, whether owned or leased. To be distinguished from building renovations in that this is for the supplies purchased when the labor is in-house. To be distinguished from capital outlay in that this is for supplies not of a major nature.

Reference 2.1.6.20 states:

Permanent Improvements:

All expenditures for the purchasing of land, structural or nonstructural improvements, and expenditures for the construction of buildings, fences, etc.

Renovations of Buildings and Additions - Interiors:

Expenditures for major repair or renovation of the mechanical systems of a building, such as plumbing, wiring, heating, etc.

Roofing Repairs and Renovations:

Expenditures for the major repair or renovation of building roofs.

Renovation of Building Exteriors:

Expenditures for the major repair or renovation of building facade or exterior other than roofing.

Other Permanent Improvements:

Expenditures for the construction, major renovation, or major repair of structures not normally classified as buildings or highway structures.

We recognize that a statewide effort at clarification in the definition and handling of permanent improvements is in progress at this time by the Joint Bond Review Committee, the State Engineer and

the Materials Management Office. Based on the outcome of this state-wide effort, we recommend that the University use the same definitions for all areas of recording and reporting transactions in the permanent improvement, renovation and repair areas.

This would ensure that permanent improvements are made with the proper approval of the State Engineer and in compliance with Section 11-35-830 of the Code, as well as, improve the disclosure required by the General Assembly and generally accepted governmental accounting principles.

#### USC RESPONSE

Upon the conclusion of the statewide effort in the definition and handling of permanent improvements, the University will record and report these expenditures as directed.

#### D. Clarification of Code Requirements in the Procurement of Construction and Related Professional Services

##### 1. Clarification of Statewide Policy in Response to Request from the University of South Carolina

On February 3, 1982, the University of South Carolina made an inquiry to the Assistant Director of General Services asking, "Does the University have the authority under the Code to do its own bidding and awarding of goods and services contracts on permanent improvement projects?"



Meetings have been held involving the Assistant Director of General Services, the State Engineer, and the Materials Management Office, including the Audit and Certification Section, to establish a statewide policy in answer to this inquiry.

As a result, the following memorandum clarifying this inquiry was issued by the Director of General Services:

This memorandum will provide additional information relative to construction procurement. It will help to clarify the roles of the several groups involved in the process as required by the Consolidated Procurement Code.

I would like to cover four types of construction procurements.

- A. Construction - This can be a single or multi-purpose construction contract. Bid documents should be prepared by the agency or its professional agent. Bids shall be received and awarded by the agency per Section 11-35-3020(2) of the Code.
- B. Basic Equipment (Fixed) - This is any equipment that becomes a fixed part of the building. The equipment may be that which could have been included in the contract, or it may be equipment either agency furnished, contractor installed, or agency furnished, agency installed. Fixed equipment includes, but is not limited to, manufactured equipment such as boilers, chillers, pumps, switch gear, windows, cabinet work, laboratory furniture, and kitchen equipment. This also includes site improvements such as water, sewer, storm drainage lines, pavement, sidewalks, landscaping and lighting. Bid documents should be prepared by the agency or its professional agent. Bids shall be received and awarded by the agency per Section 11-35-3020(2) of the Code. Except, basic equipment (fixed) that is specifically identified as information technology procurements, then the Information Technology Management Officer must make these procurements per Section 11-35-1580 of the



Code if over \$2500 or the certification limit assigned.

- C. Basic Equipment (Moveable) - This is any equipment that does not become a permanent part of the building, but is included in the construction contract. The equipment should have a useful life of five years or more and a minimum dollar limit as established by the agency per appropriate guidelines. Moveable equipment includes such items as office furniture, office equipment, rugs, drapes, hospital bedroom furniture, and classroom furniture. Bid documents should be prepared by the agency or its professional agent. If estimated cost of bid package is more than the amount of certification limits assigned the agency for goods and services, then bids will be received by Central State Purchasing in cooperation with the agency. Agency may review all bids and make recommendations of award. Central State Purchasing will make the award. Except, basic equipment (moveable) that is specifically identified as information technology procurements, then the Information Technology Management Officer must make the procurement per Section 11-35-1580 of the Code if over \$2500 or the certification limit assigned.
- D. Construction Material for In-house Construction - This is standard stock building materials or manufactured items such as brick, lumber, metal studs, gypsum board, stock electrical items, pipe, pipe fittings and valves. Following project approval by State Engineer, bid documents should be prepared by agency or its professional agent. Bids shall be received and awarded by the agency per Section 11-35-3020(2) of the Code.

We, therefore, recommend that the aforementioned procedures be followed by the University of South Carolina in future permanent improvement procurements.

## USC RESPONSE

The University has added these procedures to the internal procurement procedures manual.

### 2. Code Compliance for Future Procurements of Related Construction Professionals

Our examination of the construction project files established that there have been no contracts executed with related construction professionals subsequent to the enactment of the Consolidated Procurement Code.

Of the four project files reviewed we noted the following procedures that, if continued, would place the University of South Carolina out of compliance in regard to the procurement of the services of related construction professionals:

- (1) The University of South Carolina ranked only three related construction professionals. In Section 11-35-3220(3) the Code requires five.
- (2) Written notification of the selection was mailed to all bidders that responded, but the University of South Carolina did not notify them of the order of preference. Section 11-35-3220(6) of the Code specifically requires this be done.
- (3) An addendum to an architect contract was executed for the delivery of construction management services. This was done under the authority of the E-11, "Revision of

Project Cost Estimates" and the verbal approval by the State Engineer. Section 11-35-3010(1) and (2) of the Code require that the University of South Carolina submit a written report and be granted specific approval by the State Engineer prior to contract execution for these services.

Without any disparagement of the University of South Carolina's past procurement procedures, we recommend immediate corrective action be taken to ensure that future procurements of related construction professional services are in compliance with the Consolidated Procurement Code.

#### USC RESPONSE

Because all procurement will be under the responsibility of the Director of Purchasing, his knowledge of the Consolidated Procurement Code should ensure that these type of procurements are in compliance with the Code.

#### V. FISCAL ACCOUNTABILITY ACT REPORTING

The University has not fully complied with the requirements of the Fiscal Accountability Act in the following areas:

- (1) Failed to report to the Comptroller General a statement of all existing contracts for permanent improvements and the status of the work pursuant to such contracts.
- (2) Failed to report to General Services the following:

- (a) items exempted from the Consolidated Procurement Code;
  - (b) items procured on direct expenditure vouchers; and,
  - (c) all construction related procurements.
- (3) Neglected to reconcile the data collected for Fiscal Accountability Act reporting to General Services with the commitment listing or the general ledger system.

Act 561 of 1976, Section 4 states in part:

The quarterly reports required by this Act shall include the following information current to the end of the last preceding quarter:

,...(2) A statement of all existing contracts for permanent or capital improvements and the status of the work pursuant to such contracts....

Additionally, Section 5 states in part:

All agencies, departments and institutions of state government shall...furnish to the Division of General Services of the Budget and Control Board...a statement of all expenditures...for commodities which were not purchased through the Division. Such statements shall be prepared in the commodity code structure and report format established by the Division for reporting commodities purchased through the Division's central purchasing system....

...Expenditures for units under two hundred dollars shall be reported in the aggregate and units in excess of two hundred dollars shall be itemized.

Further, 561 as amended May 30, 1977 states in part:

...it is the intent of the General Assembly that all funds including state, federal, and other agency revenues, and also including any financial transactions covered by the budget code of the Comptroller General's office, be included in the reporting requirements of this Act....



Our examination revealed a lack of knowledge that contracts for permanent and capital improvements and progress made on such projects was required. This also was the case on the items not reported to the Division of General Services. These misunderstandings stem at least partially from statewide interpretations of the Fiscal Accountability Act which were made when it was enacted.

The result of the aforementioned conditions is that 78.9% of the procurement activity processed by the Purchasing Department for the period July 1 - December 31, 1981 has not been reported to the Division of General Services for the "Purchase Order Activity" reports. (Expenditure Reports to the Comptroller General have been made).

The General Assembly, without a major audit effort, cannot readily know the procurement activity of the University of South Carolina in the areas of:

- (1) Permanent and capital improvements; and,
- (2) Total commodities purchased.

Additionally, by not establishing Fiscal Accountability Act input as a reliable data base, the University of South Carolina deprives itself of the internal fringe benefits that could result therefrom, such as,

- (1) Planning and scheduling acquisitions;
- (2) Consolidation of commodities for better prices;
- (3) Monitoring of user department needs for efficiency, cost effectiveness and small order abuse;
- (4) Evaluation of purchasing goals.



We recommend the University of South Carolina take prompt action to establish and implement the necessary controls to ensure the following:

- (1) Until such time as the new guidelines referred to in Item IV are finalized, we recommend that the University of South Carolina establish and implement the necessary accounting controls to ensure that permanent and capital improvements are reported accurately.
- (2) The appropriate division be assigned the task of reconciling the Fiscal Accountability Act data to the commitment listing, the vendor payment listing or the general ledger system and all reconciling factors be reported promptly to the South Carolina Division of General Services. All commodity purchases be reported to the Division of General Services.

These measures should ensure that the Purchase Order Activity Reports are as accurate as the Legislature Budget Information Reports made to the Comptroller General, which were found to be complete.

#### USC RESPONSE

As noted previously, based on the conclusion of the statewide effort in establishing procedures for permanent and capital improvements, the University will establish and implement the necessary accounting controls.

Procedures have been established to include commodities that are processed on DEV's. However, two major areas of concern are Bookstore

(purchase of items for resale) and Library (books and periodicals) purchases. From the inception of commodity reporting, the established understanding was that these purchases were not to be reported since the totals were submitted on the Fiscal report. We have evaluated the possibility of reprogramming and coding Bookstore and Library purchases, however, we discovered it to be a difficult and costly task. Therefore, we respectfully request a delay in meeting this requirement, especially in light of the possibility that the commodity coding requirement will be discontinued.

Once the disposition of Library and Bookstore purchases are determined, reconciliation procedures can be established.

## VI. PLANNING AND SCHEDULING ACQUISITIONS

### A. Not Using Available Computerized Procurement Data to Plan Future Procurements

The University Purchasing Department seldom uses reports recapping and analyzing past procurement activity that could be used to review purchasing performance, identify purchasing trends and areas that could be consolidated, and aid in planning future procurements.

The University has the computer capabilities to analyze the procurement function. A computer tape recapping procurements by major object codes is generated quarterly from the general accounting system for Fiscal Accountability Act reporting to the Comptroller General. Another tape is generated quarterly recapping procurements by purchase

order and commodity codes for Fiscal Accountability Act reporting to the Division of General Services.

There is no institution policy requiring user departments nor the Purchasing Department to plan future acquisitions. Additionally, no organized effort has been made by the Purchasing Department and Computer Services to implement programs through which full use could be made of the computer capabilities available.

As a result, the Purchasing Department must anticipate future needs and areas where procurements could be consolidated through term contracts, warehousing in central stockrooms, blanket purchase orders, etc. by memory of past transactions.

Section 11-35-20 of the Consolidated Procurement Code states in part that one of the underlying purposes and policies of the Code is:

to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State.

This could be more effectively accomplished with the following changes:

- (1) Policies and procedures be implemented requiring all departments to report to the Purchasing Department future procurement requirements on at least an annual basis. This is already basically done for budget preparation.
- (2) The Purchasing Department be required to combine, standardize and plan acquisitions based upon the information supplied by the user departments and their knowledge of past procurement activity.

- (3) A system be developed which will draw upon the procurement information available and recap it in logical groupings that would help in planning acquisitions and standardizing procurements. Procurement information could be grouped by account or commodity class, vendor or dollar range to accumulate quantities ordered, ordering frequencies, vendor performance, unit prices per transaction, bidder's list and history, etc.

By combining past procurement activity with estimates of future procurement requirements the Purchasing Department could develop long-range plans which should be useful in procurement forecasting.

#### USC RESPONSE

Every reasonable effort will be made, funds permitting, to evaluate possible methods in planning procurements in order to increase purchasing efficiency.

#### B. Insufficient Pre-Planning of Printing Requirements

At the present time there is no policy which addresses the minimum turnaround time required for the Printing Services Department to process printing requisitions from user departments.

University funds have been expended to purchase printing equipment so that the Printing Services Department can provide printed material to the user departments of the University, thereby reducing the funds expended by them for getting material printed by outside sources. When



lack of pre-planning by departments is not addressed through group policy and procedures and established turnaround time is not outlined, the Printing Services Department must award outside contracts to handle overflow requests.

Lack of planning by the departments disrupts the scheduling of jobs at the Printing Services Department.

As jobs are scheduled for outside completion rather than being handled in house, the overall cost effectiveness of the Printing Services Department is reduced and University funds are spent outside the system rather than being transferred between departments. When funds are expended for printing equipment and for printing services that could be performed on that equipment, the per unit printing cost to the University is significantly increased.

It is recommended that steps be taken to strengthen current policies with regard to turnaround time, requiring special approval for emergencies, the resulting outcome being less funds expended outside the University and more effective printing services.

#### USC RESPONSE

The primary function of Printing Services is to handle the normal daily routine printing requirements of the University. At peak periods, such as the beginning of the academic term, Printing Services is not equipped to handle the increased requests and must at times procure these services from outside vendors. Special printing requirements for which Printing Services is not equipped must also be procured from outside vendors. Printing Services will however evaluate

its current policies and adjust accordingly, in order to operate at full efficiency.

#### C. Planning of Central Supply Acquisitions

Office and furniture supply items are maintained in Central Supply for issue to user departments as needed.

A sample of items stocked in the warehouse for issue was examined for turnover frequency in order to test the planning of Central Supply acquisitions.

We found that at the present rate of usage 33% of the items tested will take over one year to issue the current stock. These items represent a large amount of excess inventory being carried by Central Supply.

Additionally, we found that on 44% of the items tested the reorder points were too high based on the average quarterly usage. Per the Storekeeper in charge of this stockroom, they try to maintain a three month supply.

Central Supply has been established to consolidate purchases of commonly used items and to increase economy and efficiency in the procurement process. Generally, it is more economical to buy high usage items in large quantities, warehouse them, and fill small orders from warehouse stock rather than making many small purchases of the same items.

However, there are costs involved in a warehousing operation such as personal service, utilities, equipment repair and other overhead

costs. The cost of operating a central stockroom must be weighed against the cost savings provided.

Our tests indicate insufficient planning in developing reorder points and handling of Central Supply acquisitions.

In order to improve Central Supply operational efficiency, we recommend that stockroom acquisitions be scheduled so that on hand balances will be issued out in three months with the appropriate lead time for the procurement added to it. If the three month rule of thumb is not a viable policy, then stockroom officials should study industry and governmental information to determine standards for warehouse inventory turnover which could apply. It may be that central warehousing is not warranted for some of the items currently in stock.

It is our specific recommendation that the University continue its plans to automate the Central Supply operation. This will give management the tool for quicker verification of inventory status thereby improving their planning and scheduling. We also recommend that overstocked items be reduced in quantity to become more in line with the three month inventory status. This could be accomplished by using all or some of the following options:

- (1) Reduction of excess inventory through attrition and reduction of new purchases.
- (2) Advise prime user departments of the excess stock and determine their future needs. If the items are not needed and/or obsolete, they can be written off inventory and transferred to surplus property for disposal.

- (3) Contact vendors to see if some credit arrangements can be made about the excess inventory.
- (4) Notify other state agencies of the availability of excess supplies and where feasible and practical, transfer supplies at a mutually agreeable price which is approved by the Materials Management Officer or his designee.

#### USC RESPONSE

The Central Supply operation has currently reevaluated inventory stock levels and will continue to do so on an ongoing basis. Plans to automate the operation will also continue as funds permit.

#### D. Maintenance Stores Inventory Management

Our tests of the University of South Carolina's Maintenance Stores inventory revealed that 70% of the items turnover in a time frame greater than one year.

Further review of the Inventory Detail Report and inquiry determined that the University's maintenance inventory of \$750,000 turned over as follows:

<u>Percentage of Lines Items</u>	<u>Inventory Turnover</u>
30%	Within 12 months
7%	13-24 months
35%	25-72 months
28%	73 months or more



We realize that the slow inventory turnover is largely a result of stocking parts for emergency needs, general repair parts of many types and sizes necessary for a campus of the University's size and architectural variety, and the necessity of keeping items needed that are no longer manufactured.

The University of South Carolina cannot afford the "lag time" between ordering and delivery on many of its repair needs.

However, our examination determined that "dead" inventory stock does build up. The University of South Carolina does make an occasional review and delete these items and sell them as surplus. The last deletion was over a year ago.

Prudent management requires that regular and timely procedures be established to delete unneeded and slow moving stock items.

As a result of irregular planning, state funds are tied up in "dead" inventory stock and the best interest of the University of South Carolina and the State is not served.

Since the cost associated with this would be minimal, we recommend that the University of South Carolina at least annually review its Maintenance Stores inventory and delete obsolete stock through the surplus property program. In this way, the University of South Carolina will be ensured that the most effective and efficient use is derived from its funds.

Further, we recommend that the above inventory management principles be applied to any other supply rooms maintained at the institution.

### USC RESPONSE

Reasons for slow inventory turnover on some items were correctly summarized in the report. Procedures have been established to regularly monitor usage of inventory items in order to determine obsolete stock.

### VII. PROPERTY MANAGEMENT - PHYSICAL PLANT SURPLUS

Our examination revealed that the University of South Carolina's Project Development section of the Physical Plant Division uses a section of the Maintenance Stores warehouse to stock the overage of supplies on construction projects and used materials removed from buildings under renovation. Additionally, many materials earmarked for permanent improvement projects are received by the Maintenance Stores warehouse and later drawn upon by the Project Development section of the Physical Plant. Any excess becomes a part of the Physical Plant surplus.

The purpose of this storage is to reduce costs on future projects by drawing from these supplies.

Further testing determined that materials entering the warehouse representing overage on construction sites was not accounted for. Neither are issues from this surplus recorded.

The material received by Maintenance Stores is monitored by a manual tagging and logging system and issues are recorded by a "tick" mark requiring no signature.

Lack of accountability in supply management, whether new or used, opens doors for abuse, such as pilferage, theft, casualty losses for which no legitimate claim could be filed, etc. In short, it is weak internal control.

While we commend the University of South Carolina's intent in seeking the reduction of building material costs, prudent management principles dictate that proper controls be established to safeguard the agency's assets.

We recommend that the on-line inventory system of the Maintenance Stores be used to establish the following procedures:

- (1) All material in the Maintenance Stores warehouse under the responsibility of Project Development be inventoried, assigned part numbers, and entered in the on-line system. If values can be established, then Operational Services would IDT Project Development for the cost.

This would pass management control of these materials to that section best able, for the least additional cost, to effectively and efficiently administer them.

- (2) All materials received by Maintenance Stores be entered into the on-line system including overage on construction projects. This could be accomplished by implementing a simple return authorization form for the transfer from Project Development to Operational Services. Again, establishing the value of the goods and following the IDT procedure would enable the University of South

Carolina to more accurately reflect the cost of its permanent improvements, as this method would result in the reduction of materials cost on construction projects to those actually used.

- (3) All issues from this inventory be incorporated into the Maintenance Stores procedures which effectively control the supply movement, including identification of surplus property.

We feel the cost related to implementing these procedures would be minimal when compared to savings that result from simply knowing exactly what materials are on hand for future construction use.

#### USC RESPONSE

We agree that Maintenance Stores should establish accountability for all materials under their control through the inventory system. Procedures of this nature are now being evaluated. Policy and procedures are also being evaluated for establishing values and accounting practices for these materials.

### VIII. GENERAL CONTROL OVER THE PROCUREMENT FUNCTION

#### A. Use of Direct Expenditure Vouchers

The University uses a direct expenditure voucher (D.E.V.) to authorize expenditures when a purchase order is not used. The



University of South Carolina Policies and Procedures Manual contains the following concerning D.E.V.'s:

Policy:

The Direct Expenditure Voucher (D.E.V.) is designed for handling and authorizing nominal payments for dues, subscriptions, membership fees, and miscellaneous contractual services that would be impractical on a purchase requisition. The D.E.V. is not to be used for payment of invoices for equipment or supply purchases, for payment of personal services, or repairs. The form should be submitted to the Purchasing Department and should include a description of the charge, appropriate invoices, and approval of the Department Head.

Moving Expenses are not paid with a D.E.V.  
(see D.E.P.S. under payroll).

During our review we found the following conditions in the D.E.V. processing system:

- (1) According to Purchasing Department records, during the first six months of fiscal year 1981-82, D.E.V.'s made up 40.99% of the total transactions processed by the University Purchasing Department. Although these transactions included items exempt from competition, we feel that this proportion could be excessive.
- (2) In our test of fifty-five consulting services disbursements, we found that all but seven were processed on a D.E.V. and of these seven there were only three different purchase orders. Several of these were payments against the same purchase order.
- (3) There were four direct expenditures in the above sample greater than \$500 which could have been processed on a

purchase order and documented that they were procured competitively.

- (4) Certain foreseeable expenditures were processed by D.E.V. instead of through regular purchasing procedures such as:
  - (a) An Interior Design Engineer was paid \$4,225 by D.E.V.
  - (b) The cost of materials to construct sidewalks was paid to the City for \$4,050 by D.E.V.
  - (c) D.E.V.'s were issued to authorize payments against closed purchase orders.
- (5) The Accounts Payable Section of the Controller's Office reviews all D.E.V.'s for completeness and compliance with policies and procedures. This review is documented by the person's initials only. A stamp is used on vouchers which indicates exactly what was reviewed and by whom but this is not used with D.E.V.'s.

A properly controlled direct expenditure system reduces the cost of processing procurements and results in a measurable cost savings to the procurement section, effectively increasing economy and efficiency. The system must have adequate controls built in to ensure that:

- (1) Items which are open to competition are not obtained in this manner.
- (2) The Purchasing Department and/or the Accounts Payable Section have adequate review procedures to monitor and

control the use of D.E.V.'s and that this review is sufficiently documented.

- (3) All required supporting documents are attached with evidence of the proper approvals.
- (4) User departments are obtaining adequate competition on the small items they procure on D.E.V.'s and that business is being spread around to available vendors.

It appears that the use of direct expenditure vouchers has expanded past the original intent of the policy. Further, there are no written procedures that require departments to obtain competition on D.E.V. procurements where competition is required and/or available.

Purchasing has little control over direct expenditures because they do not see them until after the procurement has been made and payment is being processed. This leaves room for abuse. Goods or services could be purchased that would not have been allowed on a purchase requisition and there is an increased possibility of state laws and regulations being violated.

Additionally, user departments don't have to plan procurements.

We recommend that the University of South Carolina implement stricter regulations over the use of direct expenditure vouchers. We feel that the use of D.E.V.'s should be limited to a specific dollar range such as \$100 or \$250 in the areas of contractual and consulting services, dues, subscriptions and membership fees.

This dollar range could exempt payments where competition is unavailable such as utilities, postage, credit card expenses, auto licenses and registrations and bank services. A list could be prepared

of these items which could be procured on D.E.V.'s with no dollar limit.

We also recommend that the Accounts Payable Section of the Controller's Office implement a procedure whereby their review of D.E.V.'s would be clearly documented.

#### USC RESPONSE

We do not feel that the number of D.E.V. transactions are excessive when the total dollar amount of these transactions are relatively small. It would not be cost effective to generate purchase orders for small dollar amounts. As noted, many of these D.E.V. transactions are also exempt items, such as utilities, postage, books for resale and etc. We will, however, continue to evaluate the direct expenditure system and the interface to other internal procurement systems. Controls and procedures will be implemented to ensure compliance with the Procurement Code. A stamp has been developed in the Accounts Payable Section which will provide documentation of what has been reviewed and by whom on each D.E.V.

#### B. Purchase Order Price Changes Are Not Adequately Documented

Purchase orders and blanket orders are being increased and decreased in price without using official "change orders". In some cases the documentation is a request by a department which the buyer approves by annotating the purchase order. In other cases, a user department may contact a vendor and request an increase in quantity,



and the supplier complies, making a notation on the invoice. The Purchasing Department is often the last to know and makes an approval decision only after being contacted by the Accounts Payable section of the Controller's Office when they are processing payment.

Internal procurement procedures dictate that price changes to purchase orders must be processed on a University of South Carolina change order. This policy accomplishes the following objectives:

- (1) Control of all price deviations by the Director of the Purchasing Department, thereby effecting total centralization of the procurement function.
- (2) Monitoring of user department requests to authorize quantity changes to vendors.
- (3) Preventing vendors from making unauthorized price changes in purchase orders which are issued and approved at a specific price.

Due to the number of purchase order changes over a period of time, it is the tendency of the Purchasing Department to reduce paperwork flow by authorizing changes without the use of a change order.

The strength of internal control in the procurement process lies in the centralization of all documents and the delegation of the approval authority to the Director of Purchasing.

A dilution of this internal control occurs when other persons outside of Purchasing are allowed to approve price changes and the "change order" process is circumvented.

We recommend a written change order procedure be inserted in the Internal Policy and Procedures Manual and its adherence be mandated.

We emphasize the importance of the final approval authority remaining with the Director of Purchasing thus maintaining control over all purchase order changes. All change orders should be processed and approved before the merchandise is received by the departments and invoices sent to Accounts Payable. Further, it is our recommendation that the departments be educated in these areas and that any request for changes in prices or quantities not be processed if there is no prior approval by the Director of Purchasing.

#### USC RESPONSE

A change order/commitment memo is now being developed which will be used to adequately document purchase order changes.

#### C. Purchase Order Pricing

The University establishes blanket purchase orders for maintenance agreements on equipment which run for an entire fiscal year. On a purchase order of this type, the University of South Carolina and the vendor agree on a price per month for which the service will be provided on each machine covered by the agreement.

In one case a blanket purchase order covering maintenance on five keypunch machines was prepared for \$200 more than the price quoted by the vendor.

A purchase order is an authorization to purchase the stated items at the specified price. Purchase orders are the safeguard to the University that:

- (1) Prevents employees from making unauthorized purchases.
- (2) Prevents vendors from billing for more than was ordered or at higher prices than were agreed upon.

For these reasons, purchase orders must be prepared only for the approved items at the agreed upon price. They must be for no more than the price quoted by the vendor, who should be held to it.

Since blanket purchase orders for service of this type cover an entire year, there is a tendency to allow for unanticipated increases in billings. In this case though, there is a letter in the file from a vendor representative stating what the monthly charge will be per machine per month.

We recommend that the most accurate pricing information be obtained from approved vendors before purchase orders are prepared. Once this quote is obtained, a purchase order should be prepared for that amount only. Vendors should be held to the agreed upon price for the life of the agreement.

If for some unavoidable reason the vendor must escalate the price for the service provided, it should be done only after it is mutually agreed upon. At that time a change order should be prepared to increase the purchase order commitment.

#### USC RESPONSE

Procedures have been initiated to obtain and prepare maintenance agreement purchase orders with accurate and detailed pricing information. If the vendor increases prices during the year and the

Director of Purchasing approves, procedures have been developed to increase the purchase order commitment.

D. Cancellation of Supporting Documents in Accounts Payable

The University of South Carolina's method of cancelling supporting procurement documents upon payment of vouchers is not very effective. The present procedure is for the accounts payable clerk who has processed the voucher to stamp the voucher date on the voucher, invoice and other supporting documents. This stamp is rather small and can be missed without close scrutiny of the documents.

Good internal control procedures dictate effective cancellation of supporting documents to prevent duplicate or improper payments.

The University of South Carolina feels that their cancellation procedure is adequate.

We believe, however, the University should use a much larger stamp to indicate that payment has been made on these documents and to effectively cancel them. Another alternative would be to investigate the feasibility of purchasing a machine that would perforate the voucher number into all supporting documents.

USC RESPONSE

As suggested, an improved stamp has been made that clearly indicates all supporting documents cancelled.



#### E. Approval of Equipment Purchases

The Controller at the University of South Carolina Spartanburg Campus has been delegated authority to approve requisitions for equipment costing more than \$250.00.

Section C 5.01 of the University Policies and Procedures Manual states in part: "If the requisition is for equipment costing more than \$250.00, it must be approved by the Dean, Vice President or Vice Provost." There is no policy allowing this approval to be delegated below this management level.

The practice of delegating approval authority on this type of purchase is contrary to University policy.

We recommend the regional campus discontinue this practice by returning this authority to the level of Vice President or Dean in adherence with University policies and procedures.

#### USC RESPONSE

The Chancellor of the Spartanburg Campus has by written approval delegated the authority of approving equipment requisitions costing more than \$250.00 to the Controller of the campus. The primary purpose for this procedure is campus wide budget control for equipment purchases. It should also be noted that the individual normally initiating these equipment requisitions are Deans, Associate Chancellors, or Vice Chancellors.

#### F. Economical Purchasing

The University of South Carolina purchased a keypunch machine costing \$1,078.48 on a five year installment plan with monthly payments of only \$21.60.

The Purchasing Department is delegated the responsibility of procuring items needed by the University at the lowest cost available in order to maximize to the fullest extent practicable the purchasing value of the funds of the institution. For this to be accomplished, all options must be carefully considered before the decision is made.

By procuring the equipment in this manner, the cost was increased by \$232.52 or 21.56% due to interest charges.

We recommend that installment purchase agreements be avoided unless cost is so prohibitive that the equipment can only be obtained in this fashion. Interest charges should be avoided where possible.

Additionally, a payback period of five years seems excessive on a purchase of \$1,078.48. If this installment purchase had been set up on a two year basis, rather than five years, interest would have been only \$93.00, or \$139.51 less than with the five year contract.

#### USC RESPONSE

We concur and installment purchase agreements will be avoided when they are not economically practicable.

#### G. Review of Food Service Operating Data

The University has a cost-plus agreement for providing food service to the main campus. This agreement allows the vendor a fee based on a percentage of gross sales for the year. The University of South Carolina receives from the vendor various expense reimbursements and allowances based on documented sales and costs.

The vendor per contractual terms maintains all financial records and supporting documents and prepares all the operating reports which are:

- (1) Weekly Operating Reports - These are locally prepared analyses showing the vendor's sales, operating expenses, net profit or loss and the number of meals served for each service point.
- (2) Weekly Reports to the University of South Carolina - These are locally prepared weekly recaps showing the total sales and customer counts for each service point with a comparison with the previous year's report for the same period.
- (3) Monthly Operating Statement - This shows sales, expenses and net profit or loss for each month and year-to-date based on the vendor's fiscal year of October 1 - September 30. These are prepared by the vendor's home office based on information provided by their local office.

Section 3.20 of the current food service contract states:

The vendor shall keep full and accurate records in connection with food service operations covered by this contract, retaining such records for a minimum of two (2) years, and making such records available for audit by the University at any time during regular working hours during the term of this agreement and for two years after its termination.

We found that the University of South Carolina has not performed detailed analyses of the financial information provided by the vendor as follows:

- (1) The locally prepared weekly reports are reconciled with the central office's monthly operating statements by the vendor's Columbia office. The University does not perform this function nor do they obtain a copy of the vendor prepared reconciliation.
- (2) The accuracy of the various reports has not been verified in detail to supporting records in the 27 years that the current vendor has provided the service. The University stated that it feels comfortable with the accuracy of the vendor's reports and has not felt it necessary to perform an audit of their financial reporting system.

The University, further, has agreed to provide certain services for the vendor which are listed in the contract. We found, however, that the University of South Carolina is paying some of the telephone expense charged to food service. Telephone expense is specifically listed as not being a part of the services the University is to provide in Section 2.4 of the current contract.



The University is relying totally on the financial information provided by the vendor without making an effort to verify its accuracy. This makes it impossible for the institution to be assured that the year-end settlement is appropriate.

We recommend the University perform the following steps to ensure that an equitable annual settlement is worked out with the vendor:

- (1) Reconcile all locally prepared reports with the centrally prepared monthly operating statement or obtain and verify those prepared by the vendor.
- (2) Periodically conduct an audit of the books and records of the vendor including the detail documents which back up the financial reports to ensure that they are an accurate reflection of the food service operation.

The performance of these steps should ensure the University of an accurate settlement with the vendor.

Additionally, the University of South Carolina should discontinue the practice of paying telephone charges for the food service operation and only cover those expenses allowed by the contract.

#### USC RESPONSE

The University has recently contracted with a different food service company and procedures have been established to review and reconcile the food service's financial records. Also, selected periodic audits of financial accountability and controls may be performed by the University's Internal Audit Department. In addition, it should be noted that although the University did not perform a

complete detail audit of the previous vendor's records, the vendor's financial controls were continuously reviewed and monitored by the University.

## IX. INTERNAL AUDIT

We found that there has been insufficient involvement in review and audit of the procurement process by the University's Internal Audit Department.

A complete internal audit program includes a periodic review of the system of requisitioning, placing of purchase orders, receiving, etc. to determine that procurement procedures are sound and are being adhered to by user departments. As a state-supported institution the program must also include a review of the procurement process for compliance with the Consolidated Procurement Code and regulations, as well as other applicable laws and regulations.

Historically, due to time limitations, internal audit departments have been forced to concentrate their efforts in the financial area, which precluded compliance and operational programs.

This leaves a gap in the administrative control over the procurement function because this area goes without review except by external audit organizations. Although these are effective, they cannot provide the type of on-going control necessary in an area where such large sums of money are expended.

The Institute of Internal Auditors' publication entitled Standards for the Professional Practice of Internal Auditing states, "The scope

of Internal Audit should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities." We feel this expands the role of Internal Auditors into the areas of compliance, management and operational reviews of all areas and functions of an organization.

We recommend that Internal Audit programs be developed to test the procurement process for adequacy of internal control, compliance with the Consolidated Procurement Code, adherence to University procedures and overall effectiveness. This program should include but not be limited to periodic review of procurements at all dollar levels including the direct purchase voucher process and central stockroom operations.

#### USC RESPONSE

The Internal Audit Department will be requested to expand their audit programs to include compliance with the Consolidated Procurement Code.

## SUMMARY OF AUDIT CONCLUSIONS

We have examined the procurement policies and procedures of the University of South Carolina for the period July 1, 1981 - February 28, 1982. As a part of our examination, we reviewed and tested the University's system of internal control over procurement transactions to the extent we considered necessary to evaluate the procurement system. The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and University procurement policy. Additionally, the evaluation was used in determining the nature, timing, and extent of other auditing procedures that were necessary for developing a recommendation for certification above the \$2,500 limit.

The objective of internal control is to provide reasonable but not absolute, assurance of the safeguarding of the procurement process, and of the reliability of the purchasing records. The concept of reasonable assurance recognizes that the cost of a system of internal control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by



collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions. Further, projection of any evaluation of internal control to future periods is subject to the risks that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

It should be understood that our study and evaluation of the University's system of internal control over procurement operations for the period July 1, 1981 - February 28, 1982, which was made for the purpose set forth in the first paragraph above, would not necessarily disclose all weaknesses in the system.

Our review of the system of internal procurement control did, however, disclose the aforementioned conditions which we believe to be subject to improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the University of South Carolina in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Under the authority described in Section 11-35-1210 of the Procurement Code, we recommend that, subject to the above corrective action, the University of South Carolina be certified to make direct agency procurements as follows:

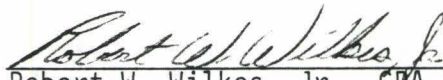
RECOMMENDED CERTIFICATION LIMITS:

- |     |   |                                   |
|-----|---|-----------------------------------|
| I.  | Goods and Services exclusive of printing equipment which must be approved by the Materials Management Office. | \$20,000, per purchase commitment |
| II. | Consulting Services   | \$20,000, per purchase commitment |

Because of the complexity of systems changes which will be made by the University in response to this report, we further recommend that, as a part of this certification, the Audit and Certification Section return to the University six months from the actual date of certification to determine that all necessary procurement system controls are functioning properly.

As indicated in the Scope section of our report, certification recommendations in the areas of Information Technology and Construction and Related Services are being deferred until completion of statewide procedures in these areas.

  
R. Voight Shealy  
In Charge Auditor

  
Robert W. Wilkes, Jr., CPA  
Director, Audit and Certification

## USC RESPONSE TO SUMMARY OF AUDIT CONCLUSIONS

The University is extremely pleased that the certification audit produced a favorable and acceptable certification. We have always felt that the procurement function of the University operated at a high level of competence, efficiency and controls. The audit results are very rewarding to the University and its staff.

In addition, we would like to thank the Audit and Certification Section staff for the preparation of this report. The audit was conducted not only with professionalism for certification, but with an air of cooperation and assistance in improving the procurement function of the University.

STATE OF SOUTH CAROLINA  
**BUDGET AND CONTROL BOARD**  
DIVISION OF GENERAL SERVICES

300 GERVAIS STREET  
COLUMBIA, SOUTH CAROLINA 29201  
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WILLIAM T. PUTNAM  
EXECUTIVE DIRECTOR

TONY ELLIS

March 8, 1983

Mr. Tony R. Ellis  
Acting Deputy Director/  
Materials Management Officer  
Division of General Services  
300 Gervais Street  
Columbia, South Carolina 29201

Dear Tony:

We have returned to the University of South Carolina to determine the progress made toward implementing the recommendations in our audit report covering the period July 1, 1981 - February 28, 1982. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

The Audit and Certification Section observed that the University has made progress toward correcting the problem areas found and improving the internal controls over the procurement system.

We, therefore, recommend that the certification limits for the University of South Carolina, as outlined in the audit report, be granted for a period of two (2) years.

Sincerely,

Barbara A. McMillan, Director  
Contracts and Audit Management

BAM:rms



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